

Sonoma County Sanitation Districts
Forestville
Occidental
Russian River
Sonoma Valley
South Park
Basic Financial Statements

Year Ended June 30, 2002

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Independent Auditors' Report

County of Sonoma Board of Supervisors
Board of Directors Sonoma Valley County
Sanitation District
Sonoma County Sanitation Districts
Santa Rosa, California

We have audited the accompanying basic financial statements of the **Sonoma County Sanitation Districts** (including Forestville, Occidental, Russian River, Sonoma Valley and South Park), (the "Districts"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2002, which collectively comprise the **Districts'** basic financial statements as listed in this table of contents. These basic financial statements are the responsibility of the **Districts'** management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the **Districts** as of June 30, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the **Districts** adopted the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* and restated beginning fund balances as described in Note O, as of July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2002, on our consideration of the **Districts'** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Independent Auditors' Report (continued)
Sonoma County Sanitation Districts

The Management's Discussion and Analysis ("MD&A") on pages 3 - 12 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Sonoma County Sanitation Districts. The accompanying information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the **Districts**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

We also audited the adjustments described in Note O that were applied to restate the June 30, 2001 financial statements audited by other auditors, who expressed an unqualified opinion on those statements. In our opinion, such adjustments are appropriate and have been properly applied.

Pisanti & Binker LLP

Santa Rosa, California
September 5, 2002

Management's Discussion and Analysis

As management of the Sonoma County Sanitation Districts (the Districts), we offer readers of the Districts' financial statements this narrative overview and analysis of the financial activities of the Districts for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with the Districts' financial statements (pages 13 - 17) and the accompanying notes to the financial statements (pages 18 - 38).

Reporting Entity

The Sonoma County Sanitation Districts are comprised of five (5) districts; Forestville, Occidental, Russian River, Sonoma Valley, and South Park. The Districts are managed by the Sonoma County Water Agency which provides administration, engineering, operational and maintenance services. The Districts are governed by a Board of Directors, which is the County of Sonoma Board of Supervisors, with the exception of Sonoma Valley which is governed by a three member board. The Districts are considered an integral part of the County of Sonoma's reporting entity, resulting in the Districts' financial statements being included in the County's annual financial statements.

Please refer to the definition of the reporting entity within the notes to the financial statements for additional detail.

Financial Highlights

Net Assets

The assets of the Districts exceeded their liabilities at the close of the most recent fiscal year by \$80,891,774 (*net assets*). Of this amount, \$15,673,730 (*unrestricted net assets*) may be used to meet the Districts' ongoing obligations to citizens and creditors.

Revenues

The Districts recognized total revenues of \$14,090,348 during fiscal year 2001/02. Of this amount, \$11,282,632 consists of charges for services (operating revenues), and \$2,807,716 of non-operating revenues consisting of investment earnings, property taxes, connection fees, intergovernmental, and gain on sale of assets.

Expenditures

The Districts incurred expenses totaling \$12,525,629 during fiscal year 2001/02. Of this amount \$11,577,051 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses and the environmental investigation within South Park County Sanitation District. The non-operating expenses total \$948,578, of which a majority represents interest expense related to debt obligation.

Increase/(Decrease) in Net Assets

The Districts recorded an operating loss of \$294,419 for fiscal year 2001/02 due to operating expenses exceeding operating revenues. The Districts recognized an overall increase in net assets of \$1,564,719 due to total revenues exceeding total expenses.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Districts' financial statements. The Districts' financial statements are comprised of three components: 1) Management's discussion and analysis, 2) combined financial statements, and 3) notes to the financial statements. This report also contains other supplementary information consisting of statements by District in addition to the basic financial statements themselves.

Management's discussion and analysis

The *Management's discussion and analysis* is intended to provide the narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of some key data presented in the financial statements.

Financial Statements

The Districts are engaged only in business-type activities. The Districts account for their financial activity utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flow. The financial statements presented are the *statement of net assets; the statement of revenues, expenses, and changes in retained earnings; and the statement of cash flows*.

The comparative analysis included in this discussion and analysis includes a restatement of fiscal year 2000/2001 financial statements to reflect the implementation of GASB Statement No. 34.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 18 - 38.

The supplementary information statements by District referred to earlier are presented immediately following the notes to the financial statements in the supplementary information. These statements can be found on pages 39 - 43.

Financial Analysis

Net assets may serve over time as a useful indicator of a Districts' financial position. In the case of the Districts, assets exceeded liabilities by \$80,891,774 at the close of the most recent fiscal year.

The largest portion of the Districts' net assets (80.5%) reflects their investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Districts use these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Districts' investment in their capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sonoma County Sanitation Districts

Management's Discussion and Analysis

Year Ended June 30, 2002

Financial Analysis (continued)

Net Assets

	June 30, 2001	June 30, 2002	Percentage Change
Current and Other Assets	\$ 27,658,628	\$ 26,467,924	(4.3)%
Capital Assets	84,841,373	87,110,157	2.7%
Total Assets	112,500,001	113,578,081	1.0%
Current Liabilities	3,579,117	4,591,612	28.3%
Non-Current Liabilities	29,593,829	28,094,695	(5.1)%
Total Liabilities	33,172,946	32,686,307	(1.5)%
Invested in Capital Assets			
Net of Related Debt	65,064,630	59,193,683	(0.1)%
Restricted	256,252	6,024,361	2,250.9%
Unrestricted	14,006,173	15,673,730	11.9%
Total Net Assets	\$ 79,327,055	\$ 80,891,774	2.0%

A portion of the Districts' net assets \$6,024,361 (7.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$15,673,730) may be used to meet the Districts' ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Districts are able to report positive balances in all three categories of net assets, both for the Districts as a whole, as well as for each separate district, with the exception of Occidental which reports negative unrestricted net assets of \$57,632.

Changes in Net Assets

	June 30, 2001	June 30, 2002	Percentage Change
Revenues:			
Program revenues			
Charges for services	\$ 10,626,488	\$ 11,282,632	6.2%
General revenues			
Property taxes	125,306	117,649	(6.1)%
Investment earnings	1,837,963	1,048,664	(42.9)%
Intergovernmental	434,699	433,542	(0.3)%
Gain on sale of asset	-	179,173	N/A
Contributions - connection fees	2,072,957	1,028,688	(50.4)%
Total Revenues	15,097,413	14,090,348	(6.7)%

Sonoma County Sanitation Districts

Management's Discussion and Analysis

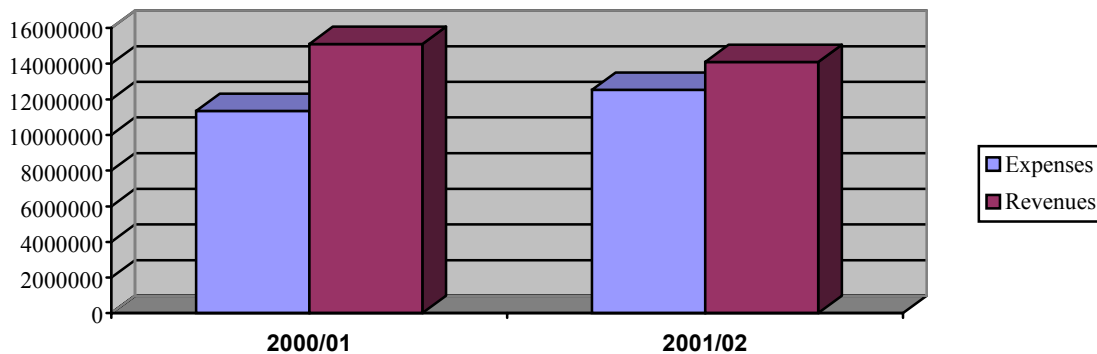
Year Ended June 30, 2002

Financial Analysis (continued)

Changes in Net Assets (continued)

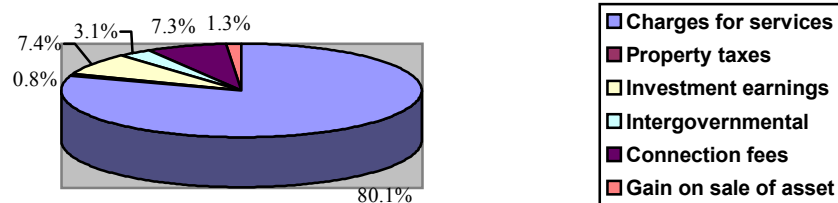
	June 30, 2001	June 30, 2002	Percentage Change
Expenses			
Services and supplies	\$ 7,550,124	\$ 8,143,698	7.9%
Fiscal agent/legal services	209,484	171,251	(18.3)%
Depreciation/amortization	2,342,958	2,833,725	21.0%
Environmental investigation	629,689	428,377	(32.0)%
Interest expense	610,712	910,867	49.2%
Other	-	37,711	N/A
Total expenses	11,342,967	12,525,629	10.4%
Increase in net assets			
Before transfers	3,754,446	1,564,719	(58.3)%
Transfers	96,500	-	N/A
Increase in net assets	3,850,946	1,564,719	(59.4)%
Net assets at beginning of year	75,476,109	79,327,055	5.1%
Net assets at end of year	\$ 79,327,055	\$ 80,891,774	2.0%

The Districts' net assets increased by \$1,564,719 during the current fiscal year. This increase is a result of total revenues for the Districts exceeding total expenses. While the Districts' net assets increased for fiscal year 2001/02, the increase was \$2,286,227 less than the increase in net assets for the preceding fiscal year. This is a result of significantly lower investment earnings and connection fees as a result of the economic environment throughout fiscal year 2001/2002, as well as an increase in expenses. Expenses increased 10.4% from fiscal year 2000/2001, and the additional expense is related to increased depreciation due to the addition of capital assets, increased treatment costs due to significant increases in chemical costs, and increased interest expense due to additional debt related to the South Park County Sanitation District.

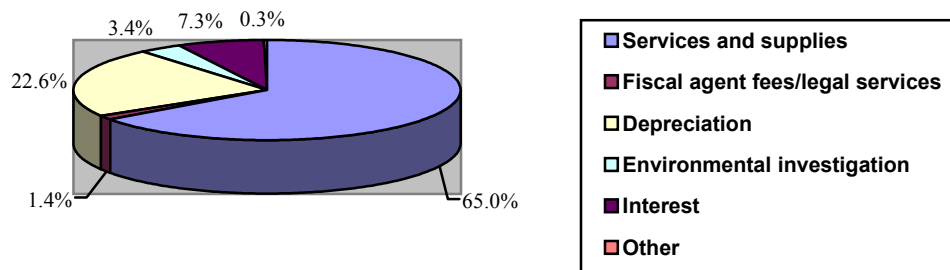
*Financial Analysis (continued)**Expenses and Revenues*

Total revenues of the Districts for fiscal year 2001/02 totaled \$14,090,348 representing a decrease of \$1,007,065 from the preceding fiscal year revenues of \$15,097,413. The rate based charges for services, representing 80.1% of the Districts' total revenue, increased by \$656,144 (6.2%), but other revenue categories (property taxes, investment earnings, intergovernmental, and connection fees), all declined from the preceding year. The Districts did realize a gain (\$179,173) from the sale of a parcel of land within the Sonoma Valley County Sanitation District. The combined effect of these occurrences is an overall reduction in revenues of 6.7%.

Total expenses for the Districts increased by \$1,182,662 to \$12,525,629 for fiscal year 2001/02. As previously mentioned, the most significant cost increases were those related to treatment, depreciation, and interest expense. Costs related to collection and administrative/general reflect only inflationary cost increases, while environmental investigation costs decreased 32.0% (\$201,312) from the preceding fiscal year.

*Financial Analysis (continued)**Revenues by Source*

As previously mentioned, total revenues collected by the Districts for 2001/02 totaled \$14,090,348. Of this amount \$11,282,632, or 80.1%, was generated through charges for services. Charges for services represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. Connection fees, which accounted for 7.3% of the annual revenue, are also collected through the permitting process. Property tax revenues accounted for 0.8% of the annual revenues, and are collected through the tax rolls to satisfy debt service requirements. Investment earnings represent 7.4% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer, as well as interest earnings on revenue bond reserve accounts held with trustees. The 3.1% of revenue attributable to intergovernmental revenues is related to Environmental Protection Agency Grants to the Forestville County Sanitation District for the advanced wastewater treatment upgrade. The Districts also realized a gain on the sale of an asset that represents the remaining 1.3% of revenue.

Expenses by Function

Total operating expenses for the Districts for fiscal year 2001/02 totaled \$12,525,629. Costs associated with the collection, treatment, and disposal of effluent represent two thirds of the Districts' operating costs (65%). The next largest functional area is the annual depreciation expense on capital assets and represents \$2,833,725 (22.6%) of total expenses. Interest expense totaling \$910,867 (7.3%) represents the cost of meeting current debt service obligations, while the environmental costs of \$428,377 (3.4%) are related to the groundwater plume investigation within the South Park County Sanitation District and have decreased 32% from the preceding year. The remaining 1.7% of expenses represents fiscal agent/legal services fees of \$171,251 and other expenses of \$37,711.

Management's Discussion and Analysis**Year Ended June 30, 2002****Capital Asset and Debt Administration***Capital assets*

The Districts' investment in capital assets as of June 30, 2002, amounts to \$87,110,157 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Effluent storage reservoir - Sonoma Valley (ongoing) - to mitigate a shortage of storage and disposal capacity
- Headworks/grit chamber - Sonoma Valley - to increase the reliability of the collection system and treatment process and to reduce operational costs.
- Aeration system phase 3 - Sonoma Valley (ongoing) - to increase the reliability of the collection system and treatment process and to reduce operational costs.
- Third unit processes project - Russian River (ongoing) - to increase the reliability of the treatment plant during wet weather conditions per directive of the North Coast Regional Water Quality Control Board.
- Aerator replacement - Russian River (ongoing) - to increase the reliability of the collection system and treatment process and to reduce operational costs.
- Advanced wastewater treatment - Forestville (ongoing) - to meet standards required by the North Coast Regional Water Quality Control Board, construction estimated to be completed in 2002/03.
- Burbank Ave project - South Park (ongoing) - collection system replacement between Sebastopol Road and Hughes Street.

Sonoma County Sanitation Districts' Capital Assets

	June 30, 2001	June 30, 2002	Percentage Change
Land	\$ 3,647,149	\$ 3,633,823	(0.4)%
Buildings and improvements	104,998,263	105,213,543	0.2 %
Machinery and equipment	290,510	290,510	N/A
Construction in progress	8,808,049	13,689,014	55.4 %
Accumulated depreciation	(32,902,598)	(35,716,733)	8.6 %
Total	\$ 84,841,373	\$ 87,110,157	2.7 %

Additional information on the Districts' capital assets can be found in Note D on pages 26 and 27 of the financial statement footnotes.

Capital Asset and Debt Administration (continued)*Long-term debt*

At the end of the current fiscal year, the Districts had a total of \$29,559,699 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, \$2,040,000 comprises debt backed by the full faith and credit of the Districts, \$24,394,527 which are special obligations of the Districts payable solely from net revenues of Districts operations, and \$3,125,172 is related to advances from the County of Sonoma, the Sonoma County Water Agency, and the United States Department of Agriculture (USDA).

Sonoma County Sanitation Districts' Outstanding Current and Long Term Debt

	June 30, 2001	June 30, 2002	Percentage Change
General obligation bonds	\$ 2,124,000	\$ 2,040,000	(4.0)%
Revenue bonds	25,021,926	24,394,527	(2.5)%
Capital leases	1,255,299	-	N/A
Advances/Due to	2,110,458	3,125,172	48.1 %
Total	\$ 30,511,683	\$ 29,559,699	(3.2)%

The Districts' total debt decreased by \$951,984 (3.2%) during the current fiscal year. The general obligation and revenue bond decreases in outstanding debt is related to the annual required payments.

The balance of outstanding capital leases, all attributed to the Forestville Sanitation District, has been eliminated during fiscal year 2001/2002. This was a requirement to secure United States Department of Agriculture funding to finance the upgrade of the treatment plant to tertiary treatment levels. Advances from other governments/funds has increased by \$1,014,714 (48.1%) due to the receipt of funding from the United States Department of Agriculture for the tertiary upgrade of the treatment plant (\$679,676), offset by the annual repayments of existing advances (\$220,362) and the issuance of a note to the Sonoma County Water Agency (\$555,400).

Additional information on the Districts' current and long-term debt can be found in Note H on pages 30 - 32 of this report.

Next Year's Budgets and Rates

Budgeted gross expenditures for the Districts for fiscal year 2002/03 have increased by \$7,461,043 (16.9%) for a total of \$51,728,624. Of the five Districts, Forestville is the only District with a reduction in budgeted expenditures (\$480,423) or (11.7%). The remaining four Districts annual budgeted expenditures for 02/03 all increased from 6.9% for Sonoma Valley to 66.1% for Russian River. The increase in appropriations for Russian River is due to a large increase for planned construction. The budget has increased from \$1,166,359 in 2001/02 to \$3,932,493 and is intended to finance treatment plant and reclamation system improvement projects.

Sonoma County Sanitation Districts

Management's Discussion and Analysis

Year Ended June 30, 2002

Next Year's Budgets and Rates (continued)

Following is a comparison of 2001/02 and 2002/03 budgeted expenditures for the five Districts:

	June 30, 2002	June 30, 2003	Increase (Decrease)	Percentage Change
Forestville				
Operations	\$ 457,050	\$ 481,558	\$ 24,508	5.4 %
Construction	3,664,024	3,159,093	(504,931)	(13.8) %
	4,121,074	3,640,651	(480,423)	(11.7) %
Occidental				
Operations	235,867	241,743	5,876	2.5 %
General Obligation Bonds	560	510	(50)	(8.9) %
Construction	4,103,370	6,000,000	1,896,630	46.2 %
	4,339,797	6,242,253	1,902,456	43.8 %
Russian River				
Operations	2,985,500	3,079,987	94,487	3.2 %
General Obligation Bonds	96,950	93,200	(3,750)	(3.9) %
Revenue Bonds	72,000	69,750	(2,250)	(3.1) %
Construction	1,166,359	3,932,493	2,766,134	237.2 %
	4,320,809	7,175,430	2,854,621	66.1 %
Sonoma Valley				
Operations	7,973,948	8,926,681	952,733	11.9 %
Construction	10,194,085	13,994,681	3,800,596	37.3 %
Outfall line	15,535	13,653	(1,882)	(12.1) %
Glen Ellen Bonds	9,250	8,850	(400)	(4.3) %
Revenue Bonds	6,780,464	3,759,043	(3,021,421)	(44.6) %
	24,973,282	26,702,908	1,729,626	6.9 %
South Park				
Operations	2,267,400	2,640,422	373,022	16.5 %
Revenue Bonds	2,317,019	2,186,910	(130,109)	(5.6) %
Construction	1,928,200	3,140,050	1,211,850	62.9 %
	6,512,619	7,967,382	1,454,763	22.3 %
	\$ 44,267,581	\$ 51,728,624	\$ 7,461,043	16.9 %

Management's Discussion and Analysis**Year Ended June 30, 2002****Next Year's Budgets and Rates (continued)**

The sewer service fees were increased for the 2002-2003 budget year. The rates were increased by an average of 6.3%.

Following are tables showing the sanitation services rates and equivalent single dwellings by District.

Rate per Equivalent Single-Family Dwelling

	June 30, 2001	June 30, 2002	Percentage Change
District			
Forestville	\$845	\$894	5.8%
Occidental	848	890	5.0%
Russian River	707	748	5.8%
Sonoma Valley	400	427	6.8%
South Park	555	600	8.1%

Number of Equivalent Single-Family Dwelling by District

	June 30, 2001	June 30, 2002	Percentage Change
District			
Forestville	384	384	N/A
Occidental	271	284	4.8%
Russian River	3,137	3,168	1.0%
Sonoma Valley	15,766	15,923	1.0%
South Park	3,887	4,003	3.0%

Request for Additional Information:

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller's Office, ATTN. Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, Ca. 95403

Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Net Assets

June 30, 2002

Assets

Current assets	
Cash and cash equivalents	\$ 15,377,647
Accounts receivable (net of allowance for uncollectibles of \$37,711)	928,785
Prepaid expense	1,500
Due from other funds	7,929
Other receivables	95,442
Total current assets	16,411,303
Noncurrent assets	
Restricted cash, cash equivalents, and investments:	
Customer deposits	1,316,367
Cash - general obligation bond fund	209,874
Cash - revenue bond fund	264,159
Cash - revenue bond reserve fund	1,748,675
Cash with trustee restricted for capital projects	5,903,111
Total restricted assets	9,442,186
Other receivables	151,529
Other assets	462,906
Capital assets	
Land	3,633,823
Buildings and improvements	105,213,543
Machinery and equipment	290,510
Construction in progress	13,689,014
Less accumulated depreciation	(35,716,733)
Total capital assets (net of accumulated depreciation)	87,110,157
Total noncurrent assets	97,166,778
Total assets	\$ 113,578,081

See accompanying Notes to Financial Statements

Sonoma County Sanitation Districts

Statement of Net Assets (continued)

June 30, 2002

Liabilities

Current liabilities

Accounts payable and accrued expenses	\$	1,311,176
Due to other governments		52,604
Due to other funds		741,400
Accrued interest payable		31,664

Total current liabilities		2,136,844
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Current liabilities payable from restricted assets

Customer deposits payable		1,316,367
General obligation bonds payable		1,000
Revenue bonds payable		670,000
Accrued interest payable		467,401

Total current liabilities payable from restricted assets		2,454,768
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Noncurrent liabilities

General obligation bonds payable		2,039,000
Revenue bonds payable		23,724,527
Due to other governments		1,168,015
Advances from other funds		1,163,153

Total noncurrent liabilities		28,094,695
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Total liabilities		32,686,307
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Net assets

Invested in capital assets, net of related debt		59,193,683
Restricted for:		
Debt service		121,250
Capital projects		5,903,111
Unrestricted		15,673,730

Total net assets	\$	80,891,774
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Sonoma County Sanitation Districts

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2002	
Operating revenues	
Flat charges	\$ 10,400,580
Charges for services	881,065
Other	987
Total operating revenue	11,282,632
Operating expenses	
Services and supplies	8,143,698
Fiscal agent fees and legal services	171,251
Depreciation and amortization	2,833,725
Environmental investigation	428,377
Total operating expenses	11,577,051
Operating loss	(294,419)
Nonoperating revenues (expenses)	
Investment income	1,048,664
Interest expense	(910,867)
Intergovernmental	433,542
Gain on sale of asset	179,173
Property taxes	117,649
Other	(37,711)
Net nonoperating revenue	830,450
Income before contributions	536,031
Capital contributions - connection fees	1,028,688
Increase in net assets	1,564,719
Net assets at beginning of year, as restated	79,327,055
Net assets at end of year	\$ 80,891,774

See accompanying Notes to Financial Statements

Sonoma County Sanitation Districts

Statement of Cash Flows

Year Ended June 30, 2002

Cash flows from operating activities	
Receipts from customers	\$ 11,439,951
Payments to suppliers	(8,902,026)
Net cash provided by operating activities	2,537,925
Cash flows from noncapital financing activities	
Property taxes	117,649
Intergovernmental revenue	262
Principal payments - advances	(120,000)
Net cash used in noncapital financing activities	(2,089)
Cash flows from capital and related financing activities	
Purchase of capital assets	(4,101,643)
Refund of debt issuance costs	3,998
Principal received - due to other governments	1,235,076
Principal payments - bonds	(729,000)
Principal payments - revenue bond defeased	(1,255,299)
Principal payments - advances	(100,361)
Interest paid on capital debt	(1,405,304)
Proceeds from intergovernmental revenue	349,765
Proceeds from sale of land	199,173
Contributed capital - connection fees	900,758
Net cash used in capital related financing activities	(4,902,837)
Cash flows from investing activities	
Interest received on pooled cash and investments	1,048,664
Decrease in cash and cash equivalents	(1,318,337)
Cash and cash equivalents at beginning of year	26,138,170
Cash and cash equivalents at end of year	\$ 24,819,833
Cash and cash equivalents includes the following at June 30, 2002:	
Cash and cash equivalents	\$ 15,377,647
Restricted cash and cash equivalents	9,442,186
	\$ 24,819,833

See accompanying Notes to Financial Statements

Sonoma County Sanitation Districts

Statement of Cash Flows (continued)

Year Ended June 30, 2002

Noncash investing, capital and financing activities:

Project costs included in accounts payable	\$	(496,236)
Net increase in fair value of investment in County Treasurer's Pooled cash	\$	3,566

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$	(294,419)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense		2,833,725
Change in assets and liabilities:		
Decrease in accounts receivable		70,859
Increase in other receivable		(11,868)
Decrease in accounts payable and accrued expenses		(158,701)
Increase in customer deposits		98,329
Net cash provided by operating activities	\$	2,537,925

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Districts as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Cash and Investments
- Note D. Capital Assets
- Note E. Restricted Assets
- Note F. Due to Other Governments
- Note G. Interfund Accounts
- Note H. Long-Term Obligations
- Note I. Debt Defeasance
- Note J. Accrued Interest Payable
- Note K. Segment Information
- Note L. Deficit in Unrestricted Net Assets
- Note M. Related Party Transactions
- Note N. Commitments and Contingencies
- Note O. Restatements of Net Assets

Note A. Defining the Financial Reporting Entity

The five Sonoma County Sanitation Districts (the "Districts") including Forestville, Occidental, Russian River, Sonoma Valley and South Park, are managed by the Sonoma County Water Agency, which provides engineering, administration, operational, and maintenance services. Prior to December 31, 1994, the Districts were managed by the Department of Transportation and Public Works. The Districts are responsible for maintaining and operating the local sanitation collection systems, pump stations, and treatment plants. Each District has an ordinance defining policies, including user fees.

An agreement for transfer of responsibility to the City of Santa Rosa of collection system operation and maintenance, and subsequent dissolution of South Park Sanitation District, was finalized on February 27, 1996 and amended February 1998 and June 2000. Under this agreement, 1) South Park will be dissolved no later than July 1, 2006, 2) the City of Santa Rosa shall acquire the unused capacity of South Park, and 3) South Park will upgrade the collection system to meet City of Santa Rosa standards. The agreement requires South Park to replace, slip-line, or repair 41,610 feet of the collection system and upgrade the Todd Road lift station before transfer of South Park to the City of Santa Rosa. On July 1, 1996, the City of Santa Rosa accepted responsibility for the operation and routine maintenance of the collection system.

The Sonoma County Water and Wastewater Financing Authority (the "Authority") was established in December 1995 and is a joint powers authority between the Sonoma County Water Agency and the Forestville County Sanitation District (the "Forestville CSD"), created under the laws of the State of California. The Authority was created for the purpose of assisting in the financing of certain public programs and projects of the Sonoma County Water Agency and the Forestville CSD, and for the purpose of aiding in the financing of public capital improvements. The Authority is administered by the Sonoma County Board of Supervisors. The Authority does not issue separate financial statements. The operations of the Authority are included in the Graton Sanitation Zone, an Enterprise Fund of the Sonoma County Water Agency.

Component Unit Reporting

The Districts (except for Sonoma Valley) are governed by the Board of Supervisors ("Board of Supervisors") of the County of Sonoma (the "County"). Sonoma Valley Sanitation District is governed by a three member board, including two County Supervisors. The exercise of this oversight responsibility causes the Districts to be an integral part of the County of Sonoma's reporting entity. Therefore, the Districts' financial statements have also been included in the County's annual financial statements.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

Note B. Summary of Significant Accounting Policies

The Districts conform to accounting principles generally accepted in the United States of America as applicable to governmental units. A summary of significant accounting policies is included below:

Note B. Summary of Significant Accounting Policies (continued)

Implementation of Governmental Accounting Standards Board Statements

The Districts have implemented the following pronouncements in the current year:

GASB Statement Nos. 34 and 37

In June 1999 and in June 2001, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments - Omnibus*, respectively. These statements imposed new standards for financial reporting.

GASB Statement No. 38

In June 2001, the GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, adds and deletes various note disclosure requirements. These requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transfers and balances, and short-term debt. This statement has been implemented with GASB Statement No. 34

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) displays information on the Districts as a whole. These financial statements include the financial activities of the District's nonfiduciary activities. For the most part, the effect of inter-district activity has been removed from these statements. The Districts do not have any activities that are considered government-type or fiduciary activities. The statement of net assets presents the financial condition of the business activities of the Districts at year end.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Districts use a proprietary (enterprise) fund to account for their activities. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Note B. Summary of Significant Accounting Policies (continued)*Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)*

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and all liabilities associated with the operation of the Districts are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For its business-type activities and enterprise fund, the District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 20, 1989 unless those pronouncements conflict with or contradict GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncement (Statements and Interpretations), constitutes GAAP for governmental units.

Net assets (i.e. total assets net of total liabilities) are segregated into three components: 1) invested in capital assets net of related debt, 2) restricted for debt service, and 3) unrestricted components.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Districts are charges for services. Operating expenses for the Districts include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Note B. Summary of Significant Accounting Policies (continued)*Cash and Investments*

The Districts follow the practice of pooling cash and investments with the County Treasurer except for restricted funds held by an outside trustee. Earned interest is allocated quarterly to the Districts in proportion to their average daily balance in the County Treasury Investment Pool (the "Treasury Pool").

The Districts follow the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred.

Statement of cash flows are presented for proprietary fund types. For this purpose, the Districts consider all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee, customer deposits and restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

Accounts and Other Receivables

Accounts receivable consists of uncollected fees for sanitation services at June 30, 2002.

Other accounts receivables represents outstanding flat charges at June 30, 2002. These flat charges are established annually by the Board of Supervisors and billed through the County's property tax system.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of one year comprise the allowance for uncollectibles.

Other receivables includes amounts to be collected for connection fees related to Russian River Ordinance #39. The Ordinance #39 receivables have 15 year lives with an interest rate of 5%.

Other receivables also include an amount to be collected from a grant by the Environmental Protection Agency (EPA). The receivable from the EPA is reimbursement of construction expenditures related to an upgrade of Forestville's wastewater treatment plant. The EPA grant had an original value of \$2,000,000. The total receivable from the EPA at June 30, 2002 amounted to \$83,515.

Note B. Summary of Significant Accounting Policies (continued)*Other Assets*

Other assets are composed of debt issuance costs of \$433,199 and a deferred loss of \$29,707 from retirement of debt, net of accumulated amortization. These costs are amortized on a straight-line basis over the terms of the related long-term debt.

Amortization expense amounted to \$19,590 for the year.

Capital Assets

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land, using the straight-line method over estimated lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives, are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

Budget and Budgetary Accounting

The Board of Supervisors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The general manager of the Sonoma County Water Agency is authorized to transfer budgeted amounts within any District except for transfers between the major expenditure classes or transfers between fixed assets and operating expenses. Such transfers require approval by the County Administrator and/or the Board of Supervisors.

Note B. Summary of Significant Accounting Policies (continued)*Property Tax Revenue*

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Districts.

The County of Sonoma has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Districts each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County of Sonoma's financial statements.

Interfund Transactions

The following is a description of the basic types of interfund transactions made during the year and the related accounting policies:

- 1) Quasi-external (charges for current services) - Transactions for services rendered or facilities provided. These transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Interfund transactions occurring between the Districts are eliminated from the totals of the financial statements.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts or revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note C. Cash and Investments

The Districts follow the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

Investment Guidelines

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County Investment Policy is available upon request from the Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Investment in County Treasurer's Pooled Cash

As of June 30, 2002, the weighted average maturity of the Treasury Pool was approximately one year. Fifty-two percent of the securities in the Treasury Pool have maturities of zero to one year, thirty-nine percent have maturities of one to three year, nine percent have maturities of three to five years, and less than one percent have maturities in excess of five years.

A portion of the securities in the Treasury Pool have variable interest rates that are tied to certain indices such as LIBOR (floating rate securities). Floating rate securities will influence the performance of the portfolio based on the increase/decrease occurring in interest rates over the short term.

Note C. Cash and Investments (continued)*Investment in County Treasurer's Pooled Cash (continued)*

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

The Sanitation Districts' shares of the net increase (decrease) in fair value of investments during the year ended June 30, 2002 was as follows:

Forestville County Sanitation District	\$ (2,067)
Occidental County Sanitation District	(849)
Russian River County Sanitation District	275
Sonoma Valley County Sanitation District	14,194
South Park County Sanitation District	(7,987)

These amounts take into account all changes in fair value (including purchases and sales) that occurred during the fiscal year.

Cash with fiscal agents is collateralized by securities held by the financial institutions acting as fiscal agent. Such securities are typically held in a pool for the purpose of providing collateral and are not held in the name of the individual districts. Funds are available for their designated purpose on short notice and are treated as a cash equivalent.

Note D. Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	Beginning Balance July 1, 2001	Increase	Decrease	Ending Balance June 30, 2002
Capital assets, not being depreciated:				
Land	\$ 3,647,149	\$ 6,674	\$ (20,000)	\$ 3,633,823
Construction in progress	8,808,049	5,096,244	(215,279)	13,689,014
Total capital assets, not being depreciated	12,455,198	5,102,918	(235,279)	17,322,837
Capital assets, being depreciated:				
Buildings and improvements	104,998,264	215,279	-	105,213,543
Machinery and equipment	290,510	-	-	290,510
Total capital assets being depreciated	105,288,774	215,279	-	105,504,053

Note D. Capital Assets (continued)

Less accumulated depreciation for:

Buildings and improvements	(32,788,808)	(2,790,310)	-	(35,579,118)
Machinery and equipment	(113,790)	(23,825)	-	(137,615)

Total accumulated depreciation	(32,902,598)	(2,814,135)	-	(35,716,733)
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Total capital assets, being depreciated, net	72,386,176	(2,598,856)	-	69,787,320
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Total capital assets, net	\$ 84,841,374	\$ 2,504,062	\$ (235,279)	\$ 87,110,157
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Depreciation expense amounted to \$2,814,135 for the year.

The total interest expense incurred by the Sanitation Districts during the current fiscal year was \$1,417,627. Of this amount, \$506,760 was included as part of the cost of capital assets under construction in connection with wastewater treatment facilities construction projects.

Note E. Restricted Assets

Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions and formal actions of the Board of Supervisors or by agreement, for the purpose of funding certain debt service payments, rebate programs and improvements and extensions to the wastewater treatment systems.

Note F. Due to Other Governments

The United States Department of Agriculture and the State Water Resources Control Board have advanced funds to certain Sanitation Districts. Interest rates range from 2.7% to 5.0%.

Annual debt service requirements to maturity for amount due to other governments are as follows:

Year ending June 30,	Principal	Interest
2003	\$ 52,604	\$ 44,452
2004	41,775	46,702
2005	43,034	45,444
2006	44,333	44,144
2007	45,675	42,803
2008 – 2012	250,072	192,317
2013 – 2017	189,703	152,898
2018 – 2022	61,130	131,790
2023 – 2027	78,251	114,668
2028 – 2032	100,168	92,751
2033 – 2037	128,224	64,696
2038 – 2042	185,650	28,782
	\$ 1,220,619	\$1,001,447

During fiscal year 1994-95, Sonoma Valley received a loan of \$760,992 from the State Water Resources Control Board for an outfall rehabilitation project. The loan is a State Revolving Loan with an initial payment of \$44,065 and subsequent payments of \$49,894, payable annually in July. The expected term is 20 years at an annual interest rate of 2.7% with the last payment scheduled for July 2014.

During fiscal year 2001-2002, Forestville received a loan of \$679,676 from the United States Department of Agriculture to help fund an upgrade of its wastewater treatment plant including a debt defeasance (see Note I). This upgrade is necessary to comply with the North Coast Regional Water Quality Control Board's Basin Plan for the Russian River. The United States Division of Agriculture has committed a total of \$2,640,500 to be loaned for this project. The loan currently has semiannual payments of \$19,292. The expected term is 40 years at an annual interest rate of 5.0% with the last payment scheduled for February 2042.

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2002

Note G. Interfund Accounts

At June 30, 2002, interfund balances are as follows:

Due from other funds

Receivable Fund	Payable District	Amount
Occidental CSD	Sonoma County Water Agency - ALW	\$ 7,929

(Due to) other funds

Receivable Fund	Payable District	Amount
Sonoma County Water Agency General Fund	Forestville	\$ (555,400)
County of Sonoma General Fund	Occidental	(20,000)
County of Sonoma General Fund	Russian River	(66,000)
County of Sonoma General Fund	South Park	(100,000)
		\$ (741,400)

Advances to/(from) other funds

Receivable Fund	Payable District	Amount
County of Sonoma General Fund	Russian River	\$ (350,153)
County of Sonoma General Fund	South Park	(200,000)
Sonoma County Water Agency General Fund	Occidental	(250,000)
Sonoma County Water Agency General Fund	Forestville	(363,000)
		\$ (1,163,153)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Note H. Long-Term Obligations*General Obligation Bonds*

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was \$3,232,000. No new general obligation bonds were issued during the current fiscal year.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

District	Interest Rates	Amount
Occidental	4.75%	\$ 7,000
Russian River	5.00%	1,860,000
Sonoma Valley	5.00%	173,000
		<u>\$ 2,040,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Principal	Interest
2003	\$ 1,000	\$ 51,158
2004	90,000	99,710
2005	95,000	95,087
2006	96,000	90,315
2007	101,000	85,392
2008 – 2012	586,000	343,642
2013 – 2017	751,000	178,400
2018 – 2022	320,000	16,625
Total	<u>\$ 2,040,000</u>	<u>\$ 960,329</u>

Revenue Bonds

The government also issues bonds where the government pledges income derived from charges for services to pay debt service. The original amount of revenue bonds issued in prior years to finance construction projects to both expand existing wastewater treatment facilities and construct additional facilities was \$26,975,000. No new revenue bonds were issued during the current fiscal year.

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2002

Note H. Long-Term Obligations (continued)

Revenue Bonds (continued)

Purpose	Interest Rates	Outstanding Amount
Wastewater treatment		
Russian River	5.00%	\$ 1,395,000
Sonoma Valley	4.00 - 5.00%	19,885,000
South Park	4.00 - 5.00%	3,490,000
		\$ 24,770,000

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest
2003	\$ 670,000	\$ 1,175,012
2004	705,000	1,146,915
2005	735,000	1,117,575
2006	750,000	1,086,834
2007	785,000	1,053,232
2008 – 2012	4,520,000	4,677,246
2013 – 2017	5,705,000	3,460,322
2018 – 2022	7,040,000	1,852,402
2023 – 2027	3,860,000	294,612
Total	\$ 24,770,000	\$ 15,864,150

Changes in Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2002 was as follows:

	Beginning Balance July 1, 2001	Additions	Reductions	Ending Balance June 30, 2002	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 2,124,000	\$ -	\$ (84,000)	\$ 2,040,000	\$ 1,000
Revenue bonds	25,415,000	-	(645,000)	24,770,000	670,000
Less deferred amounts:					
For issuance discounts	(393,073)	-	17,600	(375,473)	N/A
Revenue bond defeased	1,255,299	-	(1,255,299)	-	N/A
Total revenue bonds payable	26,277,226	-	(1,882,699)	24,394,527	670,000
Total bonds payable	\$ 28,401,226	\$ -	\$ (1,966,699)	\$ 26,434,527	\$ 671,000

Note H. Long-Term Obligations (continued)*Debt Coverage*

Due to substantial non-recurring costs related to an environmental investigation (see Note N) the South Park Sanitation District was unable to meet the debt coverage ratio required under its revenue bond. Had the environmental costs not been included, the District's debt coverage ratio would have exceeded the required level. Regardless of the noncompliance, the South Park Sanitation District has made every scheduled payment of principal and interest.

Note I. Debt Defeasance

On March 1, 2002, the Forestville Sanitation District refunded \$1,229,961 of outstanding Project Revenue Bonds Series 1995 with an interest rate of 6.5%. The defeasance of debt was required under conditions set forth by the United States Department of Agriculture to obtain funding to finance the upgrade of the treatment plant to tertiary levels and was funded as follows:

- (1) A commitment with the United States Department of Agriculture for the purchase of \$2,640,500 of "Forestville County Sanitation District Certificates of Participation (Wastewater System Improvement Project)" with an average rate of 5% payable in 40 years, of which \$676,676 of the total financing was forwarded for the repayment of the Project Revenue Bonds Series 1995;
- (2) An advance received from the County of Sonoma of \$461,000 with an average rate of 4.33%, renewable annually; and
- (3) \$132,263 previously held in trust for the service of the Project Revenue Bonds Series 1995.

As a result of the refunding, the Sanitation Districts increased its total future debt service requirements by \$247,360, but obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$70,226.

Note J. Accrued Interest Payable

Interest payable consists of interest accrued on the following obligations:

Payable from current assets:	
Interfund advances	\$ 17,919
United States Department of Agriculture	13,745
Payable from restricted assets:	
State Water Resources Control Board	14,606
Long-term bonds	452,795
Total accrued interest payable	\$ 499,065

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2002

Note K. Segment Information

Several of the Districts issued revenue bonds to finance treatment plant upgrades and construction. Investors in the revenue bonds rely solely on the revenue generated by the individual districts for repayment. Summary financial information for the individual districts is presented below.

	Forestville	Occidental	Russian River	<i>Amounts in thousands</i> Sonoma Valley	South Park
Assets					
Current assets	\$ 469	\$ 105	\$ 1,766	\$ 11,555	\$ 2,521
Noncurrent assets:					
Restricted assets	-	6	585	6,370	2,481
Other receivables	-	-	151	-	-
Advances from other fund	-	-	-	-	10
Other assets	30	-	-	309	124
Capital assets (net of accumulated depreciation)	3,912	896	26,323	51,032	4,947
Total assets	\$ 4,411	\$ 1,007	\$ 28,825	\$ 69,266	\$ 10,083
Liabilities					
Current liabilities					
Due to other funds	\$ 556	\$ 25	\$ 66	\$ -	\$ 100
Other current liabilities	359	153	123	745	16
Total current liabilities	915	178	189	745	116
Current liabilities payable from restricted assets	-	1	67	2,265	120
Total current liabilities	915	179	256	3,010	236
Noncurrent liabilities					
Advances from other funds	363	260	350	-	200
Other noncurrent liabilities	662	6	3,205	19,666	3,393
Total noncurrent liabilities	1,025	266	3,555	19,666	3,593
Total liabilities	1,940	445	3,811	22,676	3,829

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2002

Note K. Segment Information (continued)

	Forestville	Occidental	Russian River	<i>Amounts in thousands</i> Sonoma Valley	South Park
Net assets					
Invested in capital assets, net of related debt	2,331	620	22,652	32,281	1,310
Restricted for:					
Debt service	-	-	121	-	-
Capital projects	-	-	-	3,553	2,351
Unrestricted (deficit)	141	(58)	2,241	10,756	2,593
Total net assets	\$ 2,472	\$ 562	\$ 25,014	\$ 46,590	\$ 6,254
Operating revenues					
Flat charges	\$ 244	\$ 213	\$ 2,177	\$ 5,658	\$ 2,110
Charges for services	171	17	22	641	30
Other	-	-	-	1	-
Total operating revenue	415	230	2,199	6,300	2,140
Operating expenses					
Depreciation and amortization	90	23	865	1,768	88
Other operating expenses	337	357	1,582	4,564	1,903
Total operating expenses	427	380	2,447	6,332	1,991
Operating income (loss)	(12)	(150)	(248)	(32)	149
Nonoperating revenues (expenses)					
Investment income	33	6	132	706	171
Interest expense	(26)	-	(127)	(701)	(56)
Intergovernmental	433	-	-	-	-
Gain on sale of asset	-	-	-	179	-
Property taxes	-	1	100	16	-
Other	-	-	-	(38)	-
	440	7	105	162	115
Income (loss) before contributions	428	(143)	(143)	130	264
Capital contributions – connection fees	-	13	51	933	32
Increase (decrease) in net assets	428	(130)	(92)	1,063	296
Net assets at beginning of year	2,044	692	25,106	45,527	5,958
Net assets at end of year	\$ 2,472	\$ 562	\$ 25,014	\$ 46,590	\$ 6,254

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2002

Note K. Segment Information (continued)

	Forestville		Occidental		Russian River	<i>Amounts in thousands</i> Sonoma Valley		South Park
Net cash provided by (used in) operating activities	\$	77	\$	(83)	\$ 700	\$	1,759	\$ 84
Net cash provided by (used in) noncapital financing activities		-		(24)	100		17	(95)
Net cash used in capital related financing activities		(533)		(25)	(717)		(2,405)	(1,223)
Net cash provided by investing activities		33		6	133		706	171
Net increase (decrease) in cash and cash equivalents		(423)		(126)	216		77	(1,063)
Cash and cash equivalent at beginning of year		806		223	1,831		17,326	5,952
Cash and cash equivalents at end of year	\$	383	\$	97	\$ 2,047	\$	17,403	\$ 4,889

Note L. Deficit in Unrestricted Net Assets

The Occidental County Sanitation District has a deficit unrestricted net assets of \$57,632 at June 30, 2002. This district has incurred expenses in excess of revenues during the current year and in prior years. Occidental is currently receiving advances from the Sonoma County Water Agency to cover losses resulting from its continuing inability to increase revenues or to further reduce its cost of operations.

Note M. Related Party Transactions

The Sanitation Districts are Special Districts under the Board of Supervisors, and as such, have the same or similar board members as the County of Sonoma.

The Districts are managed by the Sonoma County Water Agency, which provides administration, engineering, operational, and maintenance services. The Sonoma County Water Agency allocates overhead costs amongst the Districts via the use of a 55% overhead rate charged on all expenditures applicable to the Districts. The overhead rate is reviewed annually by management to determine its effectiveness.

Note M. Related Party Transactions (continued)

Also, Forestville Sanitation District is the managing entity for a special assessment district, Mirabel Heights, that is expected to be annexed into Forestville in the near future. The revenues from Mirabel Heights are transferred to Forestville to offset payment of this special assessment district's proportionate share of operations and maintenance expenses. The amount of revenue transferred during the year ended June 30, 2002 amounted to \$83,402.

The following schedule details approximate amounts paid to Sonoma County Water Agency for administrative support during the year ended June 30, 2002:

District	
Forestville	\$ 244,072
Occidental	188,320
Russian River	1,089,562
Sonoma Valley	2,959,814
South Park	301,185

Note N. Commitments and Contingencies

The government has active construction projects as of June 30, 2002. The projects include expansion and/or improvements of several wastewater treatment facilities. At year end, the Sanitation District's commitments to construction projects are as follows:

Project	Spent-to-date	Remaining Commitment
Sonoma Valley expansion	\$ 7,271,490	\$ 4,270,180
Russian River expansion	1,146,898	155,113
Forestville upgrade	1,776,452	2,764,092
South Park improvements	3,123,051	10,250
Total	\$ 13,317,891	\$ 7,199,635

The commitments for wastewater treatment facilities are being financed by revenue bonds secured by wastewater revenues and by net assets.

South Park Sanitation District is required to pay \$125,000 per year for a period of five years to the North Coast Regional Water Quality Control Board (NCRWQCB). Payments began September 1, 1999 in order to cover administrative costs of the NCRWQCB for the purpose of ensuring progress in investigation, cleanup, outreach, and potentially responsible party identification in the volatile organic compound plume area within the District

Risk Management

The Sanitation Districts are covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Sanitation Districts are covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

Note N Commitments and Contingencies (continued)*Risk Management (continued)*

The County maintains a self-insured retention of \$750,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are \$10,000,000. Additional coverage with limits of \$5,000,000 excess of the underlying \$10,000,000 is maintained through a joint-purchase excess liability coverage provided by Lexington Insurance, administered through CSAC-EIA for a total limit per occurrence of \$15,000,000.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA property insurance program. Limits of coverage are \$200,000,000 per occurrence including flood and \$50,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

The Sanitation Districts pay administrative fees to the County for this insurance coverage. Settled claims have not exceeded this coverage for any of the past three fiscal years.

Pending Litigation, Claims, and Investigation

Proceedings are pending before the California Court of Appeal and the Sonoma County Superior Court, in which the Russian River County Sanitation District is alleged to have committed violations of its operating permit issued under the Federal Clean Water Act by the North Coast Regional Water Quality Board. Substantial costs can be expected in connection with these pending proceedings and the necessary physical improvements to comply with the Clean Water Act; it is too early to predict the amount of these costs or the source of funds. A fine of \$40,000 has been proposed in the Superior Court case and has been included in Russian River Sanitation Districts' accrued expenses. Oral argument has been scheduled in the appellate case.

The Russian River Sanitation District is also a defendant in a case entitled Burch v. Russian River County Sanitation District. The case arose from claims by Mr. and Mrs. Burch that the easement agreement signed in 1979 was breached and also that the easement was overburdened. The Burches have demanded \$1 million dollars to settle the case. Further discovery and analysis must be completed before the evaluation of the case is complete, but management feels that the likelihood of a judgment against Russian River Sanitation District is remote.

In 1999, South Park County Sanitation District and the County of Sonoma entered into a plan of action with the California Regional Water Quality Control Board to investigate a groundwater plume of volatile organic compounds. The investigation was completed in February 2002. However, the District and Sonoma County may incur substantial costs in connection with remediation. It is too early to predict the amount of such costs.

Note O. Restatements of Net Assets*Ordinance #39 Connection Fees*

In 1996, Ordinance #39 was passed mandating hookup to the Russian River sanitation system. This mandate was in response to the Environmental Protection Agency's (EPA) request for reimbursement when it was discovered that the system the EPA's grant helped to build was being underutilized. The Russian River Sanitation District loaned the owners funds to allow for the construction costs necessary for the hookup. The Districts added a receivable, amounting to \$172,765 at June 30, 2001, to reflect the remaining amount to be collected due to the passing of Ordinance #39.

Waiver of Interest on Advance

The Districts adjusted interest payable accumulated in prior years from Occidental in the amount of \$17,392 to reflect a waiver of interest on an advance from the Sonoma County Water Agency.

The impact of the restatements on the fund balances/net assets as previously reported is presented below:

	Forestville	Occidental	Russian River	Sonoma Valley	South Park
Net assets June 30, 2001, as previously reported	\$ 2,044,322	\$ 674,848	\$ 24,933,089	\$ 45,526,729	\$ 5,957,910
Restatements	-	17,392	172,765	-	-
Net assets July 1, 2001, as restated	\$ 2,044,322	\$ 692,240	\$ 25,105,854	\$ 45,526,729	\$ 5,957,910

Supplementary Information

Sonoma County Sanitation Districts

Statement of Net Assets, by District

June 30, 2002

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ 383,379	\$ 91,448	\$ 1,462,340	\$ 11,032,909	\$ 2,407,571	\$ -	\$ 15,377,647
Accounts receivable (net of allowance for uncollectibles of \$57,711)	2,088	5,146	291,846	522,816	106,889	-	928,785
Prepaid expense	-	-	-	-	1,500	-	1,500
Other receivables	83,515	-	11,927	-	-	-	95,442
Due from other funds	-	7,929	-	-	4,958	(4,958)	7,929
Total current assets	468,982	104,523	1,766,113	11,555,725	2,520,918	(4,958)	16,411,303
Noncurrent assets							
Restricted cash, cash equivalents, and investments:							
Customer deposits	-	-	-	1,316,367	-	-	1,316,367
Cash - general obligation bond fund	-	5,965	199,666	4,243	-	-	209,874
Cash - revenue bond fund	-	-	264,159	-	-	-	264,159
Cash - revenue bond reserve fund	-	-	121,250	1,496,593	130,832	-	1,748,675
Cash with trustee restricted for capital projects	-	-	-	3,552,523	2,350,588	-	5,903,111
Total restricted assets		5,965	385,075	6,369,726	2,481,420	-	9,442,186
Other receivables	-	-	151,529	-	-	-	151,529
Advances from other fund	-	-	-	-	9,928	(9,928)	-
Other assets	29,707	-	-	309,378	123,821	-	462,906
Capital assets							
Land	356,383	-	223,832	3,053,608	-	-	3,633,823
Buildings and improvements	2,460,023	987,214	37,697,992	59,934,526	4,133,788	-	105,213,543
Machinery and equipment	-	-	-	290,510	-	-	290,510
Construction in progress	1,776,452	371,121	1,146,898	7,271,492	3,123,051	-	13,689,014
Less accumulated depreciation	(679,990)	(461,882)	(12,745,990)	(19,519,216)	(2,309,655)	-	(35,716,733)
Total capital assets (net of accumulated depreciation)	3,912,868	896,453	26,522,732	51,030,920	4,947,184	-	87,110,157
Total noncurrent assets	3,942,575	902,418	27,059,536	51,710,024	7,562,553	(9,928)	97,166,178
Total assets	\$ 4,411,557	\$ 1,006,941	\$ 28,825,449	\$ 69,265,749	\$ 10,083,471	\$ (14,886)	\$ 113,578,081

Sonoma County Sanitation Districts

Statement of Net Assets, by District (continued)

June 30, 2002

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Liabilities							
Current liabilities							
Accounts payable and accrued expenses	\$ 310,115	\$ 153,237	\$ 122,594	\$ 709,468	\$ 15,762	\$ -	\$ 1,511,176
Due to other governments	17,316	-	-	35,288	-	-	52,604
Due to other funds	555,400	24,958	66,000	-	100,000	(4,958)	741,400
Accrued interest payable	31,664	-	-	-	-	-	31,664
Total current liabilities	914,495	178,195	188,594	744,756	115,762	(4,958)	2,156,844
Current liabilities payable from restricted assets							
Customer deposits payable	-	-	-	1,316,367	-	-	1,316,367
General obligation bonds payable	-	1,000	-	-	-	-	1,000
Revenue bonds payable	-	-	50,000	545,000	75,000	-	670,000
Accrued interest payable	-	-	17,438	404,436	45,527	-	467,401
Total current liabilities payable from restricted assets	-	1,000	67,438	2,265,803	120,527	-	2,454,768
Noncurrent liabilities							
General obligation bonds payable	-	6,000	1,860,000	173,000	-	-	2,039,000
Revenue bond payable	-	-	1,345,000	18,986,690	3,592,837	-	23,724,527
Due to other governments	662,360	-	-	505,655	-	-	1,168,015
Advances from other funds	363,000	259,928	350,153	-	200,000	(9,928)	1,163,153
Total noncurrent liabilities	1,025,360	265,928	3,555,153	19,665,345	3,592,837	(9,928)	28,094,695
Total liabilities	1,939,855	445,123	5,811,185	22,675,904	3,829,126	(14,886)	52,686,307
Net assets							
Invested in capital assets, net of related debt	2,330,592	619,450	22,651,579	32,281,883	1,310,179	-	59,193,683
Restricted for:							
Debt service	-	-	121,250	-	-	-	121,250
Capital projects	-	-	-	3,552,523	2,350,588	-	5,903,111
Unrestricted (deficit)	141,110	(57,632)	2,241,435	10,755,439	2,593,378	-	15,673,730
Total net assets	\$ 2,471,702	\$ 561,818	\$ 25,014,204	\$ 46,089,845	\$ 6,254,145	\$ -	\$ 80,891,714

Sonoma County Sanitation Districts

Statement of Revenues, Expenses and Changes in Net Assets, by District

Year Ended June 30, 2002

	Forestville		Occidental		Russian River		Sonoma Valley		South Park		Total	
Operating revenues												
Flat charges	\$	243,557	\$	212,314	\$	2,176,611	\$	5,657,808	\$	2,110,310	\$	10,400,580
Charges for services		170,882		17,262		22,057		640,657		30,227		881,065
Other		-		-		310		577		100		987
Total operating revenue		414,419		229,576		2,198,958		6,299,042		2,140,637		11,282,632
Operating expenses												
Services and supplies		331,455		326,955		1,525,325		4,499,344		1,460,619		8,143,698
Fiscal agent fees and legal services		5,514		29,971		56,935		64,674		14,157		171,221
Depreciation and amortization		89,605		22,835		865,064		1,768,190		88,051		2,833,725
Environmental investigation		-		-		-		-		428,577		428,577
Total operating expenses		426,574		379,761		2,447,324		6,332,208		1,991,184		11,577,051
Operating income (loss)		(12,155)		(150,185)		(248,366)		(33,166)		149,453		(294,419)
Nonoperating revenues (expenses)												
Investment income		52,723		6,084		132,528		706,248		171,081		1,048,664
Interest expense		(26,468)		-		(126,875)		(701,385)		(56,139)		(910,867)
Intergovernmental		453,280		-		-		262		-		453,542
Gain on sale of asset		-		-		-		179,173		-		179,173
Property taxes		-		939		100,336		16,374		-		117,649
Other		-		-		-		(37,711)		-		(37,711)
Net nonoperating revenue		459,535		7,023		105,989		162,961		114,942		850,450
Income (loss) before contributions		427,380		(143,162)		(142,377)		129,795		264,395		536,031
Capital contributions - connection fees		-		12,740		50,787		933,321		31,840		1,028,688
Increase (decrease) in net assets		427,380		(130,422)		(91,590)		1,063,116		296,235		1,564,719
Net assets at beginning of year		2,044,322		692,240		25,105,854		45,526,729		5,957,910		79,327,055
Net assets at end of year	\$	2,471,702	\$	561,818	\$	25,014,264	\$	46,589,845	\$	6,254,145	\$	80,891,774

Sonoma County Sanitation Districts

Statement of Cash Flows, by District

Year Ended June 30, 2002

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Cash flows from operating activities							
Receipts from customers	\$ 416,249	\$ 219,100	\$ 2,239,395	\$ 6,466,853	\$ 2,098,354	\$ -	\$ 11,439,951
Payments to suppliers	(338,879)	(301,640)	(1,539,462)	(4,708,313)	(2,013,732)	-	(8,902,026)
Net cash provided by (used in) operating activities	77,370	(82,540)	699,933	1,758,540	84,622	-	2,537,925
Cash flows from noncapital financing activities							
Property taxes	-	942	100,536	16,571	-	-	117,649
Intergovernmental revenue	-	-	-	262	-	-	262
Principal payments - advances	-	(20,000)	-	-	(100,000)	-	(120,000)
Principal payments - due to/from other funds	-	(4,634)	-	-	-	4,634	-
Principal received	-	-	-	-	4,634	(4,634)	-
Net cash provided by (used in) noncapital financing activities	-	(23,692)	100,536	16,633	(95,366)	-	(2,089)
Cash flows from capital and related financing activities							
Purchase of capital assets	(781,522)	(36,789)	(413,175)	(1,871,473)	(998,684)	-	(4,101,643)
Refund of debt issuance costs	-	-	-	-	3,998	-	3,998
Principal received - due to other governments	1,235,076	-	-	-	-	-	1,235,076
Principal payments - bonds	-	(1,000)	(120,000)	(533,000)	(75,000)	-	(729,000)
Principal payments - capital leases	(1,255,299)	-	-	-	-	-	(1,255,299)
Principal payments - advances	-	-	(66,000)	(34,361)	-	-	(100,361)
Interest paid on capital debt	(80,771)	-	(168,750)	(970,675)	(185,108)	-	(1,405,304)
Proceeds from intergovernmental revenue	349,765	-	-	-	-	-	349,765
Proceeds from sale of land	-	-	-	199,173	-	-	199,173
Contributed capital - connection fees	-	12,740	50,787	805,391	31,840	-	900,758
Net cash used in capital related financing activities	(532,751)	(25,049)	(717,138)	(2,404,945)	(1,222,954)	-	(4,902,837)
Cash flows from investing activities							
Interest received on pooled cash and investments	32,723	6,084	132,528	706,248	171,081	-	1,048,664
Net increase (decrease) in cash and cash equivalents	(422,658)	(125,197)	215,659	76,476	(1,062,617)	-	(1,318,537)
Cash and cash equivalents at beginning of year	806,037	222,610	1,831,756	17,326,159	5,951,608	-	26,138,170
Cash and cash equivalents at end of year	\$ 383,379	\$ 97,413	\$ 2,047,415	\$ 17,402,635	\$ 4,888,991	\$ -	\$ 24,819,853

Sonoma County Sanitation Districts

Statement of Cash Flows, by District (continued)

Year Ended June 30, 2002

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Noncash investing, capital and financing activities:							
Project costs included in accounts payable	\$ (304,008)	\$ (90,725)	\$ 39,970	\$ (409,104)	\$ 274,291	\$ -	\$ (490,236)
Net increase (decrease) in fair value of investment in County Treasurer's Pooled cash	\$ (2,067)	\$ (849)	\$ 275	\$ 14,194	\$ (7,987)	\$ -	\$ 5,266
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ (12,155)	\$ (150,185)	\$ (248,366)	\$ (33,166)	\$ 149,453	\$ -	\$ (294,419)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation and amortization expense	89,605	22,835	865,064	1,768,190	88,031	-	2,833,725
Change in assets and liabilities:							
Decrease (increase) in accounts receivable	-	(7,929)	9,308	69,480	-	-	70,859
Decrease (increase) in other receivable	1,829	(2,544)	31,130	-	(42,283)	-	(11,868)
Increase (decrease) in accounts payable and accrued expenses	(1,909)	55,283	42,797	(144,293)	(110,579)	-	(158,701)
Increase (decrease) in customer deposits	-	-	-	98,329	-	-	98,329
Net cash provided by (used in) operating activities	\$ 77,570	\$ (82,540)	\$ 699,933	\$ 1,758,540	\$ 84,622	\$ -	\$ 2,557,925

Compliance

**Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Basic Financial Statements
Performed in Accordance with *Government Auditing Standards***

County of Sonoma Board of Supervisors
Board of Directors Sonoma Valley County
Sanitation District
Sonoma County Sanitation Districts
Santa Rosa, California

We have audited the basic financial statements of the **Sonoma County Sanitation Districts** (including Forestville, Occidental, Russian River, Sonoma Valley and South Park), (the "Districts"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 5, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Districts'** financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Districts'** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Districts'** ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 02-1 through 02-5.

**Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Basic Financial Statements
Performed in Accordance with *Government Auditing Standards* (continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are not material weaknesses.

This report is intended for the information of the management, Commission, County of Sonoma, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Pranti & Brinker LLP

Santa Rosa
September 5, 2002

Schedule of Findings and Questioned Costs

Year Ended June 30, 2002

Section I. Summary of Auditors' Results*Financial Statements*

Type of auditors' report issued:

unqualified

Internal control over financial reporting:

Material weaknesses identified

_____ yes X noReportable conditions identified not considered
to be material weaknessesX yes _____ no

Noncompliance material to financial statements noted

_____ yes X no**Section II. Financial Statement Findings****Conditions Deemed to Not Be Material Weaknesses**

Item 02-01

Observation

During a review of cash receipts subsequent to year end, it was noted that a reimbursable amount of an Environmental Protection Agency grant for June 2002 had not been recorded as revenue and accounts receivable at the fiscal year end.

Recommendation

We understand that it is the Districts policy not to record receivables from other governmental agencies. However, in order to comply with GASB Statement No, 33, these receivables must be recorded. Therefore we recommend that the Districts include the recording of intergovernmental items as part of their cut off procedures.

Districts' Response

The policy to not record Federal/State receivables resulted from historical delays in receiving FEMA/State Disaster Relief monies. We concur that non-disaster related receivables should be accrued.

Item 02-02

Observation

We noted during our audit that several liabilities were not recorded for work completed prior to year end and that a receivable relating to work performed prior to year end was not recorded.

Section II. Financial Statement Findings (continued)**Conditions Deemed to Not Be Material Weaknesses** (continued)

Item 02-02 (continued)

Recommendation

We understand that due to the short period of time between year end and the beginning of the Districts' audit, it is hard to capture all invoices relating to year end. We also understand that the receivable that was not recorded relates back a number of years and is not a result of current year actions. However, we recommend that the Districts maintain a log of invoices received after year end relating to construction in progress. We also recommend reviewing revenue sources during the year to determine when the revenue was earned. Implementation of these procedures will help ensure proper cutoff between periods.

Districts' Response

The Districts will make efforts to ensure more accurate reporting of year-end accruals, including additional training of staff by Auditor's office.

Item 02-03

Observation

While testing a disposed asset transaction (land) we noted that there was no gain or loss recorded although the land had been in the possession of Sonoma Valley Sanitation District for a number of years. The asset had been reduced by the total amount of consideration received although upon further investigation we noted that the carrying value (original cost) was significantly less thus resulting in a gain from sale of asset for which an adjustment was made.

Recommendation

We recommend that the Districts maintain a schedule of land that identifies parcels on an individual cost basis instead of a lump sum cost basis.

Districts' Response

The parcel in question was sold June 28, 2002 which did not provide accounting staff adequate time to research the historical cost prior to the year-end cutoff. We concur that a detailed list of land should be maintained and will revise the current listing.

Section II. Financial Statement Findings (continued)

Conditions Deemed to Not Be Material Weaknesses (continued)

Item 02-04

Observation

It was noted that Occidental County Sanitation District has no recorded land. It was discovered that Occidental does in fact not have land but rather an easement. This easement was received in 1968 in return for services provided by the District to the owner. No asset value for the easement was ever recorded.

Recommendation

We recommend that the Districts, in exchange transactions, maintain schedules of values of services provided at the time the services are performed in order to ensure accuracy of value recorded.

Districts' Response

As noted, the easement was received in 1968 while the District was under the management of the Sonoma County Public Works Department. The District will make every effort to ensure assets are properly recorded in the future.

Item 02-05

Observation

During a review of a letter received from the County Counsel, it was noted that there were two penalties, as a result of litigation resolved prior to year end, that had not been properly accrued in accordance with accounting requirements.

Recommendation

We recommend that the Districts implement procedures to help ensure more timely communication between management and accounting staff with regards to legal issues that could adversely affect the assets of the Districts. This could include a review of potential liabilities in accordance with the applicable accounting guidance and recording accruals as appropriate.

Districts' Response

The District will make every effort to review potential liabilities and, in accordance with the applicable accounting guidance, will record accruals as appropriate. The Districts intend to meet with Auditor's office staff prior to year-end closing to review accrual issues and procedures.